

Message Text

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TAGS: ECON, EAGR, CE

SUBJ: SRI LANKA: GSL SUBSIDY CUTTING EFFORTS

1. SUMMARY: SINCE OCTOBER, 1973, GSL HAS CUT SUBSIDIES ON RATIONED FOOD, FERTILIZER AND OTHER ESSENTIAL COMMODITIES IN EFFORT TO ALIGN DOMESTIC PRICES WITH REALITIES OF WORLD INFLATION AND SHORTAGES. DURING ENSUING TEN MONTHS, HOWEVER, CONTINUING INTERNATIONAL COST INCREASES HAVE MORE THAN CANCELED ANY NET FINANCIAL BENEFITS OF COMBINATION OF REDUCED SUPPLIES AND INCREASED PRICES TO CONSUMERS. PRESENT ESTIMATE OF CALENDAR 1974 TOTAL FOOD SUBSIDY IS DOUBLE AVERAGE OF PAST SEVERAL YEARS. BEST THAT CAN BE SAID IS THAT FOREIGN EXCHANGE AND DOMESTIC BUDGETARY BURDEN WOULD HAVE BEEN FAR WORSE, IF NOT INSUPPORTABLE, WITHOUT GSL'S POLITICALLY HAZARDOUS SUBSIDY CUTTING ACTIONS. END SUMMARY.

2. RICE: (ALL FIGURES IN MILLIONS OF SRI LANKA RUPEES
PRESENT OFFICIAL EXCHANGE RATE IS US \$1-SLRS. 6.63)
FOR COMPARISON, RICE SUBSIDY FOR FIRST THREE YEARS OF
UNITED FRONT GOVERNMENT WAS 1970: RS. 557 M; 1971 RS. 604 M;
1972: RS. 579 M. IN SEPTEMBER, 1973, GSL ESTIMATED THAT
SUBSIDIES WITHOUT ANY CUTS/PRICE INCREASES WOULD BE 1973:

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RS. 777 M AND 1974: RS. 932 M. FOLLOWING OCTOBER 1 ACTIONS

AND MANY SUBSEQUENT RATION/PRICE ADJUSTMENTS, 1973 ACTUAL RICE SUBSIDY WAS RS. 603 M WHILE FOOD COMMISSIONER (FC) ESTIMATES (AS OF AUGUST 15) THAT 1974 RICE SUBSIDY WILL BE RS. 770 M. TOTAL RICE DISTRIBUTION HAS BEEN REDUCED FROM SEPTEMBER 1973 PROJECTED 720,000 TONS TO AUGUST 15 ESTIMATED 600,000 TONS. REASON FOR NEGATIVE RESULT GSL MEASURES AND FOR UNDERSTANDABLE GSL FRUSTRATION IS CLEARLY ILLUSTRATED BY FC DATA PUBLISHED BY CEYLON CENTRAL BANK INDICATING JANUARY TO MAY 1973 RICE IMPORTS WERE 206,000 TONS VALUED AT RS. 175 M WHILE RICE IMPORTS FOR SAME PERIOD, 1974, HAVE BEEN 182,000 TONS VALUED AT RS. 461 M. WITHOUT SUPPLY CUTS AND PRICE INCREASES, FOOD COMMISSIONER NOW ROUGHLY GUESSES THAT 1974 TOTAL RICE SUBSIDY WOULD HAVE BEEN OVER RS. 1200 M.

3. WHEAT FLOUR. IN 1971 AND 1972, GSL GROKE EVEN ON FLOUR BUT RS. 54 M LOSS (SUBSIDY) APPEARED IN 1973. SEPTEMBER 1973 ESTIMATES WITHOUT RATIONING/PRICE ADJUSTMENTS WRE 1973; RS. 159 M; 1974: RS. 268 M. RESULTS HAVE BEEN 1973 (ACTUAL) RS. 62 M; 1973 (AUGUST 15 ESTIMATE); RS. 151 M. JANUARY/MAY IMPORT VOLUME/VALUATION COMPARISONS ARE 1973: 164,000 TONS AT RS. 173 M; 1974: 201,000 TONS AT RS. 388 M. THERE HAS BEEN NO REDUCTION IN ANNUAL DISTRIBUTION RATE OF 420,000 TONS AND THUS NO SAVINGS FROM DOWNWARD ADJUSTMENTS IN SEEMINGLY INCOMPRESSIBLE FLOUR CONSUMPTION.

4. SUGAR. OF THREE MAJOR FOOD COMMODITIES, GSL HAS TAKEN WORST BEATINGS ON SUGAR. BEFORE 1973 SUGAR SALES SHOWED PROFITS OF RS. 221 M IN 1970, RS. 63 M IN 1971 AND RS. 41 M IN 1972. SEPTEMBER 1973 ESTIMATES WERE FOR LOSS (SUBSIDY) OF RS. 11 AND IN 1974; RS. 19 M. RESULTS WERE 1973 (ACTUAL) RS. 33 M AND FOR 1974 (AUGUST 15) HUGE RS. 114 M. IN JANUARY/MAY 1973 FC IMPORTED 69,000 TONS VALUED AT RS. 107 M BUT SUBSTANTIALLY REDUCED BOTH FIGURES DURING SAME PERIOD 1974: 21,000 TONS AT RS. 49 M. UNTIL END AUGUST, 1974, FC EXPECTED 1974 SUGAR DISTRIBUTION TO BE ABOUT 118,000 TONS, DOWN FROM 200,000 IN 1973. MOST RECENT SUGAR PRICE INCREASES, HOWEVER, HAVE FORCED FC ON SEPTEMBER 5 TO STOP ALL OFF-RATION SUGAR SALES AND CUT RATION FROM 1 LB. TO 3/4 LB. PER PERSON PER MONTH. ALTHOUGH AS YET UNANNOUNCED RATIONED PRICE WILL PROBABLY BE LIMITED OFFICIAL USE

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RAISED TO NEARLY REFLECT IMPORT COST. TOTAL MONTHLY DISTRIBUTION WILL GO DOWN TO 6,000 TONS. THUS SUGAR IS CLEARLY CLASSIFIED AS LUXURY WITH PRICE RISES AND RATIONING CUTTING DISTRIBUTION TO BARE MINIMUM.

5. TOTAL FOOD SUBSIDIES (NET, INCLUDING SUBSIDIES ON SUBSIDIARY FOODSTUFFS) ARE: 1970: RS. 327 M; 1971: RS. 532; 1972: RS. 612 M; 1973:(ACTUAL) RS. 669 M; 1974

(AGUST 15 ESTIMATE): RS. 1,083 M.

6. FINALLY, PADDY FERTILIZER ANNUAL SUBSIDY OF ABOUT RS. 30 M FOR 1974 WAS ELIMINATED JULY 12. TEA AND COCONUT INDUSTRIES CONTINUE TO ENJOY RSM 65 M AND RS. 15 M FERTILIZER SUBSIDIES RESPECTIVELY. REASON FOR CUT IS CLEAR FROM IMPORT VOLUME/VALUATION FIGURES: 1973: 326,000 TONS AT RS. 154M; 1974: 395,000 TONS AT RS. 514 M. ALTHOUGH RICE FERTILIZER SUBSIDY WAS NOT GREATLY SIGNIFICANT TO BUDGET, LONG-TERM EFFORT IS UNCERTAIN OF COMBINED SUBSIDY ELIMINATION AND SIMULTANEOUS RAISING OF GSL GUARANTEED PRICE FOR PADDY FROM RS. 30 PER BUSHEL TO RS. 33. CEYLON FERTILIZER OFFICIALS HAVE PROJECTED INCREASED CONSUMPTION OF FERTILIZER IN 1975 EVEN AFTER SUBSIDY ELIMINATION BUT ARE PRIVATELY CONVINCED THAT MANY FARMERS WILL STOP OR SIGNIFICANTLY REDUCE FERTILIZER USE, AT LEAST FOR SEVERAL RICE PLANTING SEASONS. RESULT COULD BE DECREASED PRODUCTION AND RESULTING NECESSITY FOR RELATIVELY INCREASED FOOD IMPORTS.

6. COMMENT: DESPITE SEVERE DAMAGE OF WORLD INFLATION, GSL'S EFFORTS TO REDUCE SUBSIDY BURDEN, LONG URGED BY INTERNATIONAL FINANCIAL ADVISORS, HAS BEEN REAL AND SIGNIFICANT. DURING TEN-MONTH PERIOD SINCE PROGRAM BEGAN, MOST MEASURABLE RESULT HAS BEEN FAVORABLE OPINION AND FINANCIAL SUPPORT PROVIDED BY SOURCES OF AID AND BANK LENDING, WITHOUT WHICH SRI LANKA COULDN'T HAVE AVOIDED SERIOUS RISK OF ECONOMIC AND POLITICAL DISORDER.
VAN HOLLEN

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